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Introduction

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Dealings Between Related Taxpayers

I

INTRODUCTION

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The three articles which follow deal with the tax consequences arising by reason of certain transactions between taxpayers having a particular relationship. In addition, certain tax consequences stemming directly from such relationship will be examined. The common thread in these articles is the fact that the relationship either requires or permits a variation in tax results from the result which would follow if it were not present. Although the character and degree of relationship may be set forth in explicit detail in the statute[1] or may be outlined in broad terms for resolution in the Regulations and decisions,[2] as explained below, in each instance the existence of the required relationship is the indispensable factor.

Limitations of time and space forbid covering all that is encompassed by the broad title of the symposium. Although the presence of a particular relationship can convert a capital transaction into a dividend,[3] a discussion of stock redemptions is far beyond the scope of the following discussion. Similarly, neither the ubiquitous question of whether compensation paid by a corporation to a related taxpayer is reasonable[4] nor the basic problem of relationships for dependency purposes can be covered.[5]

Rather, the following articles review the allocation of income, deductions, credits, and allowances among related taxpayers; the disallowance of losses and certain deductions between related taxpayers; the characterization of gain on certain sales; and the tax treatment of multiple corporations under the continuing rules and the provisions in the Revenue Act of 1964.[6]

1. INT. REV. CODE OF 1954, § 267(b) [hereinafter cited as CODE §].
2. CODE § 482.
3. CODE §§ 302, 318.
4. Treas. Reg. § 1.162-7 (1958).
5. CODE §§ 151, 152. We have overcome the temptation to discuss the famous case of Leon Turnipseed, 27 T.C. 758 (1957).
6. As Mr. Colquhoun points out at p. 242 *infra,* multiple corporate births, unlike multiple individual births, are frowned upon by the Government rather than rewarded. The Internal Revenue Service attempts to deny tax benefits to multiple corporations, while it is understood that the same Internal Revenue Service has ruled, for example, that large sums conferred upon the Fischer quintuplets of Aberdeen, South Dakota, were tax-free gifts under § 102 of the Code. Of course, this ruling is not an unmixed blessing. See CODE § 274(b).